



**T H E M I L I T A R Y C O A L I T I O N**

201 North Washington Street  
Alexandria, Virginia 22314  
(703) 838-8113

**STATEMENT OF  
THE MILITARY COALITION (TMC)**

**before the**

**Subcommittee on Military Personnel**

**House Committee on Armed Services**

**on**

**The Uniformed Services Retirement System**

**October 25, 2011**

**Presented by**

**Steve Strobbridge, Colonel, USAF (Ret)  
Director, Government Relations  
Military Officers Association of America  
Co-Chairman, The Military Coalition**

**John Davis  
Legislative Director  
Fleet Reserve Association  
Co-Chairman, The Military Coalition Retired Affairs Committee**

MISTER CHAIRMAN AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE. On behalf of The Military Coalition, a consortium of nationally prominent uniformed services and veterans' organizations, we are grateful to the Subcommittee for this opportunity to express our views concerning the uniformed services retirement system. This testimony provides the collective views of the following military and veterans' organizations, which represent approximately 5.5 million current and former members of the seven uniformed services, plus their families and survivors.

- Air Force Association
- Air Force Sergeants Association
- Air Force Women Officers Associated
- AMVETS (American Veterans)
- Army Aviation Association of America
- Association of Military Surgeons of the United States
- Association of the United States Army
- Association of the United States Navy
- Chief Warrant Officer and Warrant Officer Association, U.S. Coast Guard
- Commissioned Officers Association of the U.S. Public Health Service, Inc.
- Enlisted Association of the National Guard of the United States
- Fleet Reserve Association
- Gold Star Wives of America, Inc.
- Jewish War Veterans of the United States of America
- Iraq and Afghanistan Veterans of America
- Marine Corps League
- Marine Corps Reserve Association
- Military Chaplains Association of the United States of America
- Military Officers Association of America
- Military Order of the Purple Heart
- National Association for Uniformed Services
- National Guard Association of the United States
- National Military Family Association
- Naval Enlisted Reserve Association
- Non Commissioned Officers Association
- Reserve Enlisted Association
- Reserve Officers Association
- The Retired Enlisted Association
- Society of Medical Consultants to the Armed Forces
- United States Army Warrant Officers Association
- United States Coast Guard Chief Petty Officers Association
- Veterans of Foreign Wars of the United States
- Vietnam Veterans of America
- Wounded Warrior Project

The Military Coalition, Inc., does not receive any grants or contracts from the federal government.

## Overview

Mr. Chairman and distinguished members of the Subcommittee, The Military Coalition (TMC) thanks you for your continued, unwavering support for the fair treatment of active duty, Guard, Reserve and retired members of the uniformed services, and their families and survivors.

Over the past 11 years and more, this Subcommittee has been the primary champion of ensuring that the sacrifices of the career force are adequately recognized in their compensation package.

When the pay and benefit cutbacks of the 1980s and 1990s undermined retention and readiness, it was this subcommittee that worked to restore pay comparability, repeal unwise retirement “reform” cutbacks, restore military health coverage for older beneficiaries and correct longstanding compensation penalties imposed on disabled retirees and survivors.

You and the Subcommittee staff, along with your Senate counterparts, are Congress’ institutional memory and its repository of expertise on the close relationship between compensation, retention and readiness and what can go wrong when that relationship gets out of balance.

You have shepherded the all-volunteer force successfully through previous times of fiscal austerity and through times of protracted war.

Now, when that force has been through a decade of arduous wartime sacrifice never envisioned by its architects and when the Nation again faces a period of extraordinary fiscal challenges, the Coalition looks to you again to exert a leadership role in ensuring the lessons of the past are not forgotten and the that Nation will continue to fulfill its reciprocal obligation to those who serve a career in uniform protecting its vital interests.

***The Coalition is particularly concerned that many in the Administration and some in Congress appear unaware of the history of adverse outcomes associated with past compensation cutbacks, and views these vital programs simply as sources of savings, without adequate regard to the impact of such changes on long-term readiness.***

***The Coalition believes strongly that significant changes in the crucial career incentives that form the core pillars of the all-volunteer force must be approached with considerable care and skepticism, considering repeated experience with past, ill-advised adjustments that ended up costing the country at least as much to fix as they had been projected to save.***

## The Military Retirement System

There are three separate retirement programs for the uniformed services – final basic pay, high-36-month average basic pay, and REDUX.

Most current retirees retired under the final basic pay system, which provides 2.5% of final basic pay per year of service (e.g., 50% of basic pay after 20 years), with annual cost-of-living adjustments (COLAs) tied to the rise in the Consumer Price Index during the previous year (the same COLA system used for Social Security).

Members who entered service after Sept 8, 1980 have their retired pay based on 2.5% of their highest 36 months' average basic pay per year of service, also with annual CPI-based COLAs. The vast majority of currently serving personnel serve under this system. This system yields about 8% less lifetime retired pay value than the final basic pay system.

The REDUX system was enacted in 1986 and was applied to service entrants on or after Aug 1, 1986. It provides 2.5% times high-36-month basic pay per year of service, except that 1% is subtracted for each year of service less than 30 (e.g., 40% of high-36-months basic pay after 20 years of service). Further, REDUX retiree COLAs are adjusted annually at a rate 1% less than the CPI (CPI-1). Under the REDUX law, retired pay is recomputed on a one-time basis when the retired member attains age 62. At that point, retired pay is recomputed to the amount that would have been payable under the high-36-month average system. After age 62, CPI-1% COLAs continue for life. The REDUX system further reduced lifetime retired pay value by up to 27%.

Congress repealed REDUX as the default system for post-1986 entrants in 2000 after the Joint Chiefs of Staff complained that it was undermining career retention and readiness. At the time, the REDUX system was the most frequently mentioned specific reason for leaving service among separating personnel.

Under current law, the high-36-month retired pay system is the default option, but servicemembers have the option at the 15-year point of electing the REDUX option in return for a one-time \$30,000 taxable career retention bonus. Only a minority of servicemembers choose this option, and the Coalition believes strongly that accepting this option is a very unwise decision.

### **Replacement Value of Retired Pay**

Many wrongly believe that uniformed servicemembers receive "50% of pay after 20 years of service," but that is not the reality. The retired pay calculation is based solely on basic pay. Unlike civilians whose retirement is based on their full salary (often including locality differentials), the servicemember's housing and subsistence allowances are excluded from the retired pay calculation.

***Thus, a servicemember with 20 years of service earns a retired pay amount that replaces approximately 34%-37% of his or her gross active-duty cash pay and allowances.***

### **Purpose of the Uniformed Services Retirement System**

The entire military compensation system, to include the retirement benefit, is based on certain underlying principles as outlined in the Department of Defense's (DoD) *Military Compensation Background Papers* and "should be designed to foster and maintain the concept of the profession of arms as a dignified, respected, sought after, and honorable career."

***The whole purpose of the unique military retirement and healthcare package is to offset the extraordinary demands and sacrifices inherent in a service career. They were built to provide***

***a powerful incentive for top-quality people to serve 20-30 years in uniform, despite the burden of sacrifices eloquently articulated by the Secretary of the Air Force during his January 18, 1978 testimony before the President's Commission on Military Compensation:***

“The military services are unique callings. The demands we place on our military men and women are unlike those of any other country. Our worldwide interests and commitments place heavy burdens and responsibilities on their shoulders. They must be prepared to live anywhere, fight anywhere, and maintain high morale and combat efficiency under frequently adverse and uncomfortable conditions. They are asked to undergo frequent exposure to risk, long hours, periodic relocation and family separation. They accept abridgement of freedom of speech, political and organizational activity, and control over living and working conditions. They are all part of the very personal price our military people pay.

“Yet all of this must be done in the light of – and in comparison to – a civilian sector that is considerably different. We ask military people to be highly disciplined when society places a heavy premium on individual freedom, to maintain a steady and acute sense of purpose when some in society question the value of our institutions and debate our national goals. In short, we ask them to surrender elements of their freedom in order to serve and defend a society that has the highest degree of liberty and independence in the world. And, I might add, a society with the highest standard of living and an unmatched quality of life.

“Implicit in this concept of military service must be long-term security and a system of institutional supports for the serviceman and his family which are beyond the level of compensation commonly offered in the private, industrial sector.”

There is no better illustration of that reality than the experience of the past decade, during which 1% of Americans has been made to bear the entire burden of wartime sacrifice for the other 99%. ***Absent the career drawing power of the current 20-year retirement system and its promised benefits, the Coalition asserts that sustaining anything approaching needed retention rates over such an extended period of constant combat deployments would have been impossible.***

***The crucial element to sustaining a high-quality, career military force is establishing a strong bond of reciprocal commitment between the servicemember and the government. If that reciprocity is not fulfilled, retention and readiness will inevitably suffer.***

***The Coalition believes the government has a unique employer's responsibility to the small segment of Americans it actively induces to serve for 20 to 30 years under all the conditions described above that goes far beyond any civilian employer's obligation to its employees.***

### **Criticisms of the Retirement System**

The uniformed services retirement system has had its critics since the 1970s and even earlier.

Budget pressures of the time led to implementation of the high-36-month average system and subsequently the REDUX system.

Both before and since, innumerable studies and task forces have recommended dramatic changes, usually either to save money, to make the system more like those offered under civilian programs, or both.

Most recently, groups such as the National Commission on Fiscal Responsibility and Reform, the Debt Reduction Task Force, the Sustainable Defense Task Force, and the Defense Business Board's "Modernizing the Military Retirement" Task Group have all recommended revamping it.

Outgoing Secretary of Defense Robert Gates was recently quoted as calling the military retirement system a "rigid, one-size-fits-all approach" and "unfair" because over 70 percent of those that enter military service don't make it to 20 years of service.

Alice Rivlin, former Director of the Office of Management and Budget (OMB) and founding director of the Congressional Budget Office (CBO), was appointed by the President to his National Commission on Fiscal Responsibility and Reform and also was a co-chair of The Debt Reduction Task Force.

Both groups' findings were critical of the existing retirement system calling it "inequitable" or "out of line with pensions in the private sector."

But what appears to be "new" is merely a repackaging of past criticisms.

For example, in January 1978, only a few years following the advent of the all-volunteer force, then CBO Director Alice Rivlin released a report named, *"The Military Retirement System: Options for Change"* intended as a basis for future debate with Congress and the Administration at the time. That report outlined the criticisms of the military retirement system at the time: again, "unfair" and "inflexible".

Other than the ill-fated REDUX effort, Congress has wisely ignored and dismissed these ivory-tower recommendations for very good reasons, which the Coalition wishes to examine more closely.

**"Inflexibility":** One frequent criticism of the existing retirement system is that it is inflexible and limits the ability of Service personnel managers to more precisely and effectively manage the force.

The Coalition strongly disagrees.

The Services already have substantial authority to adjust high-year-of-tenure limits to enforce the unique military "up-or-out" promotion system.

Other authorities exist, and services are currently exercising them, to incentivize voluntary separations and voluntary or mandatory early retirements.

Service managers routinely tighten retention and reenlistment incentives and restrictions when budget or other considerations create a need for additional separations and retirements.

When necessary, Congress has provided additional special drawdown authorities.

***But the practical reality is that precisely planned force management initiatives are regularly tossed aside in the wake of world events that force dramatic reversals of those planned actions.***

No force planner suspected on Sept. 10, 2001 that the Nation would be facing a decade of protracted war. And for the first several years of that conflict, Defense and service leaders actively resisted initiatives to grow the force to meet requirements for what they simultaneously acknowledged would be a “long war.”

The unfortunate reality is that the one thing history tells us about the Services’ best-laid plans for the future force is that they will likely be proven inappropriate for the world future force leaders will actually have to deal with.

***Plans that envision delaying retirement eligibility until age 57 or 60 belie the reality that the services don’t want the vast majority of servicemembers to stay in uniform that long.***

Some physically demanding career fields require young physically fit members. There is a reason that all services impose high-year-of-tenure limits for those whose future promotion appears unlikely.

And in keeping with the uncertainty of future plans mentioned above, the history of the force over the last several decades is that budget pressures regularly force mass early separations and retirements.

***Service desires for unlimited flexibility to trim the force may be appropriate for management of hardware and other non-sentient resources. But the services are dependent upon attracting and retaining smart people who are capable of looking downstream and understanding all too well when their leaders put no limits on the sacrifices that may be demanded of them, but also wish to reserve the right to kick them out at will....even while building a system that assumes they will be willing to serve under these conditions until age 60.***

***Servicemembers from whom we demand so much deserve some stability of career expectations in return.***

**“Unfairness”:** Another frequent criticism is that the current retirement system is “unfair” to those who choose to leave before attaining 20 years of service. They contrast this to the vesting requirement imposed on civilian retirement plans.

The Coalition sees both practical and philosophical flaws in this assertion.

First, as a practical matter, adding a vesting benefit would cost a significant amount of money, and neither the Administration nor Congress has indicated an eagerness to invest more money in the military retirement system.

Second, we have acknowledged that *there is a significant difference between service and civilian careers. The military has no lateral entry options available to civilian employers.* It is a promote-from-within system that requires much stronger inducements to complete a career in uniform.

*Adding an early vesting option, by definition, can only detract from the pull to serve a full career. In times of poor retention, it would leave the government in the position of bidding against itself for their services.*

Finally, virtually all vesting proposals would be paid for by subtracting a far greater sum from the retired pay value of those who serve a full career.

*It's an odd concept of "fairness" that would significantly cut compensation value for those who serve longest under arduous military service conditions in order to provide extra compensation for those who choose to leave before completing career service.*

*The Coalition believes strongly that the retention power of the 20-year retirement system is the only reason the services were able to sustain retention and readiness in the face of the incredible wartime sacrifices imposed on servicemembers and families over the last decade.*

Had the retirement reforms recently in the news been in effect during that period, the Coalition believes they would have destroyed career retention. If a 10-year servicemember is faced with a fourth deployment, with a choice between separating with a vested retirement or continuing to serve decades under these conditions, with retired pay delayed until age 60 – knowing that he or she almost certainly wouldn't be allowed to serve that long – what choice do you think most people would make?

*The "fairness" issue for voluntary separatees is a red herring, because our first national priority must be fairness to those who complete an arduous, multi-decade career.*

### **Recent Retirement Reform Proposals**

Last month, the White House announced plan to establish a special commission to review the military retirement system, using a BRAC-like process under which:

- The Pentagon would develop a retirement reform proposal
- The DoD proposal would be referred to a special commission tasked with crafting a final proposal and subsequently forwarded to the White House
- If approved (without change) by the White House, the commission proposal would have to get an up-or-down vote by Congress, without any amendment options

*The Coalition believes a BRAC-like "reform" process is particularly inappropriate for a program so crucial to sustaining long-term retention and readiness. A BRAC-like process limits debate, restricts the capacity for needed analysis and review, denies due-diligence review, and leaves this crucial program subject to the whims of a small group tasked to meet a deadline in a short time period.*

The language in the Administration plan makes it clear that the intent of the initiative is to generate large savings by making the military retirement system more like civilian plans.

Such intent is inappropriate and shockingly insensitive to the radical difference between military and civilian working conditions. The last 10 years of war only emphasize that, if anything, military service conditions are even worse than they were when the current retirement system was enacted.

***We believe that “civilianizing” the military benefit package would dramatically undermine the primary military career retention incentive and would be disastrous for retention and readiness, as they increase incentives to leave and reduce incentives for career service.***

***It is irresponsible to focus on budget and “civilian equity” concerns while ignoring the primary purpose of the retirement system – to ensure a strong and top-quality career force.***

The White House plan comes on the heels of various studies, commissions, and task forces that have sought savings through various plans to reform the military retirement system.

For the most part, such proposals have envisioned requiring longer careers to earn an immediate annuity; changing the retired pay formula to yield lower initial pay; converting to a 401(k)-style system to shift more of the responsibility for retirement income to individual savings; reducing, delaying or means-testing annual cost-of-living adjustments; and imposing greater cost-sharing in military retirement health care.

Several specific proposals merit individual discussion.

**Chained-CPI Cost-of-Living Adjustment (COLA):** One of the most frequently mentioned options by most deficit-cutting panels is a “technical correction” to the Consumer Price Index (CPI) called the “chained CPI.”

Again, this isn’t a new idea. It’s been pushed for years by some economists who believe the CPI overstates inflation by failing to adequately recognize that consumers change their behavior when prices of some products and services rise sharply.

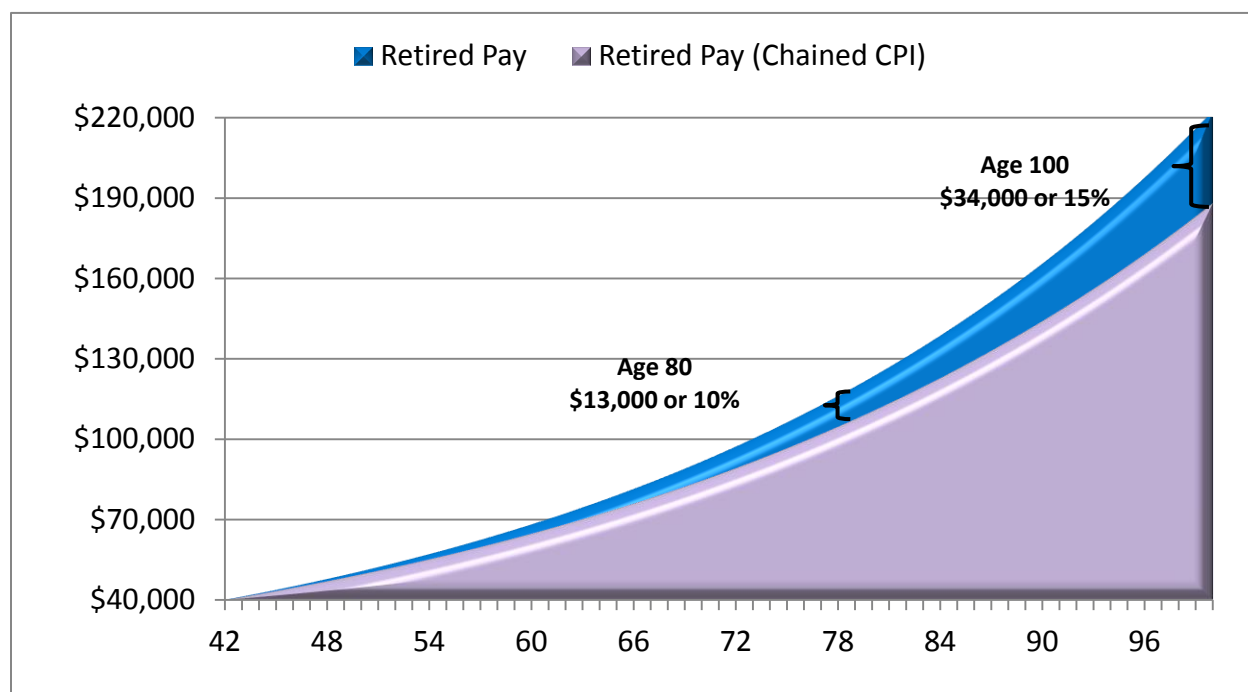
When that happens, economists say, people simply buy cheaper substitute products – chicken instead of beef when beef prices rise.

The case gets stickier with other substitutions. Is hamburger a reasonable substitute for steak? Is a compact car a reasonable substitute for a full-size one?

***This is not just price substitution – it’s a quality-of-life substitution. Over time, this mentality leads to substantial changes in living patterns.***

The Coalition believes that you need to look beyond the substitution philosophy to the bottom line. The chained CPI would reduce retired pay and other COLAs by about one-quarter of a

percentage point each year. That doesn't sound like much, until you see how that would compound over a retiree's lifetime (reflected in the following chart).



Military retirees and the disabled particularly would be affected because they start drawing inflation-adjusted pay at relatively younger ages. For a military retiree, switching to a chained CPI COLA would reduce total lifetime retired pay by about 6 percent. That's about \$100,000 for an E-7 retiring today with 20 years of service. A newly retiring O-5 with 20 years of service would lose double that amount.

And that's for someone living an average lifespan (early 80s). Half will live longer, and expected longevity is rising every year.

Three other factors are relevant here, as well.

*First, the Bureau of Labor Statistics already made a change to allow some relatively modest substitutions several years ago.*

*Second, when COLA changes (delays) previously were proposed in the 1990s, the outcry from seniors successfully won an exemption for Social Security, leaving COLA penalties to fall disproportionately on military retirees.*

*Third, smaller COLAs aren't the only penalty of the chained CPI, because it also would be used for tax threshold adjustments. Smaller annual tax-bracket adjustments would lead to more people shifting into higher tax brackets every year.*

*For all of these reasons, the Coalition does not support the use of a chained CPI.*

**COLA Caps/Delays:** During the budget-cutting years of the mid-1990s, several initiatives from various sources proposed artificially depressing annual military retired pay COLAs by .5% or 1% below the CPI, by means-testing COLAs to prevent their application to individuals above certain income levels, or to delay eligibility for COLAs until age 60 or longer.

***The Coalition has ardently resisted COLA caps and delays as inappropriate for the uniformed services community.***

***First, they would defeat the purpose of inflation-adjusted COLAs,*** as stated in the words of historic House Armed Services Committee reports accompanying title 37, U.S.C.:

“(The COLA) reflects the progressive effort made by both the Executive Branch and the Congress to develop an automatic mechanism which would in the last analysis guarantee every military retired member that the purchasing power of the retired pay to which he was entitled at the time of retirement would not, at any time in the future, be eroded by subsequent increases in consumer prices.”

***Arbitrarily capping COLAs at some percentage below the inflation measure used by the rest of the government would consciously condemn service retirees (many of whom are forced into early retirement by disability, service tenure limits and force cuts) to decades of continually eroding purchasing power.*** Compounded over time, they would dramatically cut retired pay value, and the effect would be greater the longer the retiree lived.

***Similarly, means-testing retired pay COLAs would penalize most those who served longest and competed best in the services’ up-or-out environment. Implementing such a plan would create a perverse retention incentive.***

Delaying COLAs until a later age would similarly undermine retention incentives and inordinately penalize those affected by disability and budget-driven force drawdowns. In the case of the latter group, it would impose an unfair and inappropriate double penalty.

***Delaying COLAs until later in life would improperly penalize servicemembers for noncompliance with longevity requirements that are denied to the vast majority by law and service policies.***

**“High-5”:** Another proposal suggested by some is to implement a “High-5” system under which retired pay would be based on the average of the highest 60 months (five years) of basic pay vs. the current “High-3” system that uses the highest 36 months’ average basic pay.

The net effect of this change would be to reduce retired pay by nearly 6% relative to the High-3 system, and more than that for members promoted within four years of leaving service.

***The Coalition believes imposing a High-5 penalty would be inappropriate for the military because it would further discount and devalue the servicemember’s performance in his or her final grade.***

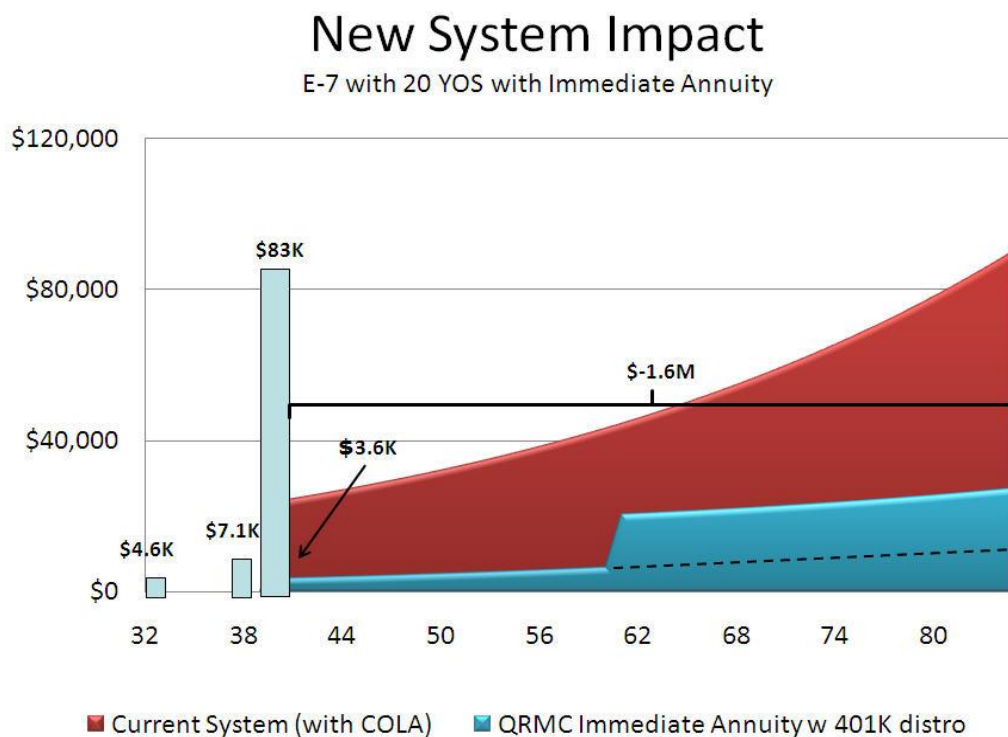
Under today's High-3 system, an E-7 retiring at 20 years of service receives retired pay of only \$23,900 – hardly a king's ransom.

A High-5 system would further reduce that to only \$22,600.

**10<sup>th</sup> QRMC Recommendation:** Many recent proposals to “reform” military retirement have originated from the recommendations of the 2008 10th Quadrennial Review of Military Compensation's (QRMC). The QRMC proposed to:

- Convert the military to a civilian-style retirement system under which full retired pay wouldn't be paid until age 57-60
- Vest retirement benefits after 10 years of service
- Authorize the Services to pay flexible “gate pays” and separation pay at certain points of service to encourage continued service or encourage people to leave

The verbal description is one thing, but a graphic depiction is more insightful. First and foremost, it would drastically reduce retired pay annuities. The chart below compares the QRMC proposal “immediate annuity upon retirement option” with that of the current retirement plan.



The red (darker) shaded area shows the current retired pay projection over time for a newly retiring E-7 at age 40 with 20 years of service. His/her retired pay of about \$24,000 a year would grow using a 3% COLA factor. This chart reflects the life expectancy (age 85) of 40-year-old E-7 newly retiring under the current system.

The QRMC plan (blue [lighter] shaded area on the chart) would reduce retired pay 5% for each year before age 57 (17 years x 5% = 85% reduction), yielding only \$3,600 at age 40.

At age 60, the retiree would begin drawing money from a 401(K)-type plan. Using QRMC assumptions and projecting a 7% rate of return, the retiree would draw an additional \$13,600 per year until age 85. To be able to draw money beyond age 85, the annual withdrawal amount would have to be reduced.

To help entice people to serve longer, the QRMC envisioned a series of cash bonus payments (shown as three bars on the chart). The first two bars (\$4.6K and \$7.1K) reflect bonuses (before taxes) equal to 15% of annual basic pay at the 12 and 18 years of service points. In addition, the QRMC envisioned a separation bonus equal to a multiplier of 1 X monthly basic pay X years of service before taxes – 20 months of basic pay at 20 years of service.

But the bonuses wouldn't be guaranteed. The Services could turn them on or off depending on their needs in any particular year.

***The bottom line is that the proposed system would reduce total expected lifetime retired pay for an E-7 with 20 years of service by a whopping \$1.6 million (and more than that for people who live beyond age 85), in return for taxable bonus payments of less than one-tenth that amount.***

***The Coalition believes the QRMC plan would do grave damage to long-term retention and readiness.***

***In effect, it would destroy most of the financial incentive to pursue an arduous military career particularly for enlisted members.***

***By dramatically reducing its financial commitments to servicemembers without any reduction in the enormous sacrifices demanded of career troops and families, it would invalidate any sense of reciprocal commitment between member and service.***

**The Defense Business Board Proposal:** The QRMC plan is risky business. However, it pales in comparison when one considers the newest military retirement proposal briefed at the Defense Business Board (DBB) this past summer.

The Board's retirement task force recommended eliminating the current defined-benefit military retirement system and substituting a new 401(k)-like defined contribution plan with annual government contributions.

Many details of their recommendation are still undefined – such as how soon servicemembers would be vested and how much the government contribution would be.

Like the QRMC plan, the task force envisions leaving annual contribution amounts up to the Services, perhaps based on whether the servicemember was in a combat zone, on a hardship tour, or held a "higher risk" occupation. In addition, their plan would grandfather existing retirees and "fully disabled" veterans under the current system.

For currently serving personnel, they offered two options:

- A "high-cost" option would apply only to new service entrants, and grandfather all currently serving members under the current retirement system.

- A “lower-cost” option would immediately transfer all currently serving members to the new system, while crediting any time already served under the current system.

The latter option is what many civilian firms have done when changing retirement plans. Under this option, for example, a person who has 10 years of service upon implementation would get an annuity of 25% of high-three-year average basic pay upon retirement, whether he/she ended up serving 20 years or 30 years. But for the years after the implementation date, retirement credit would be built solely through the 401(k)-style system, with withdrawals allowed beginning at age 60.

This proposal would eliminate not only the defined benefit for retirees, but also the current Survivor Benefit Plan (SBP) for retiree survivors. Survivors would receive the “transportable” 401(k) in place of the current SBP annuity.

The Coalition is very concerned that shifting to a defined-contribution 401-(k)-style system would effectively void an important element of the government’s reciprocal obligation to those of whom it demands so much. There is no avoiding the risks of military service, up to and including death. But the uniformed services system has sought to offset that risk with assurances that survivors would be taken care of with a package of defined and predictable benefits, including an inflation-adjusted annuity that the survivor could not outlive.

***The defined contribution system obviates that promise by requiring servicemembers and survivors to accept a large degree of financial risk over and above the normal risks inherent in a career of service.***

***The Coalition believes a defined, predictable retired pay and survivor annuity should remain a critical element of the military retirement package.***

Let's put the DBB's proposal in perspective. The DBB is made up of corporate business leaders with limited military experience (only one retiree on the board) and is chartered to provide recommendations to SecDef – in this case, find ways to reduce costs of the current military retirement and provide something to those with less than 20 years of service.

The DBB talks of budget savings, but does not even mention the impact on future readiness or retention. This is serious. Not only would it put another strain on our servicemembers and their families because they would now face an uncertain future, it would threaten our national security, as many people are beginning to realize.

***It is particularly galling to the Coalition that the DBB has characterized the existing retirement system as too rich a benefit for those who serve a long career and that it has “no comparison in the private sector.”***

***Few corporate employees face life and death decisions at work, or being shot at on a regular basis. Few have to leave their spouses to spend years in desolate, dangerous places while their families fend for themselves back home. They usually don’t have to move every year or two, to places they have no control over selecting and suffer the accompanying disruptions of spousal***

*careers and incomes and children's education. Bottom line – a military career has no comparison with a civilian career.*

*The DBB plan also would make it impossible for currently serving personnel to estimate their potential retired pay value as they decide whether to pursue a service career.*

Under the current system, a servicemember can look at a pay table and have an idea what retired pay would be expected if they stay a specific period of time and attain a certain grade.

That would be impossible under the DBB plan, which would be subject to the vicissitudes of annual service budget cycles and the larger markets.

In sum, it adds a huge financial risk to all of the other risks inherent in a career of uniformed service. The Coalition believes that, of all Americans, those accepting the risks of a career in uniform deserve some reasonable certainty in terms of their expected reward.

### **Learning from the REDUX Lesson**

*Of all the reasons to be skeptical of dramatic retirement reform proposals, none is more cautionary than the very real experience with the REDUX system enacted August 1, 1986 that reduced 20-year retired pay value by approximately 25% for servicemembers who entered service on or after that date.*

When Congress was considering the REDUX legislation, then-Secretary of Defense Casper Weinberger wrote congressional leaders to express his grave concern that the reduced career “pull” of lower retired pay compared to the continuing sacrifices inherent in a military career would eventually undermine retention (see attached Weinberger letter).

Those concerns proved justified in the 1990s, as surveys of separating servicemembers highlighted the REDUX system as a significant reason for their decisions to leave service. Subsequently, Congress repealed the REDUX system at the urging of the Joint Chiefs of Staff on readiness grounds.

Virtually all of the retirement reform proposals in recent years would impose far more draconian retired pay cuts on career service personnel than the REDUX law did.

*If REDUX undermined retention and readiness in the peacetime years of the mid- and late 1990s and had to be repealed, how can we expect that far more severe cuts won't do much greater damage, especially in a wartime environment?* Even if the current war were to end tomorrow, hard experience tells us any new service entrant can expect to spend some years at war.

*The Coalition is dismayed that, in contrast to the prescient concerns of Secretary Weinberger for the future readiness consequences of the 1986 REDUX change, no current Defense or Administration leaders are voicing any such concerns about far more draconian changes.*

***The Coalition believes it is grossly irresponsible to ignore the obvious lessons of history in order to pursue ill-advised efforts to treat crucial retention and readiness programs as little more than a cash cow to achieve defense budget savings.***

### **The Self-Deception of “Grandfathering” Against Ill-Advised Changes**

Finally, the REDUX experience taught that grandfathering the current force against significant changes does not avoid the negative retention and readiness consequences of those changes.

Grandfathering is designed simply to quell dissent and fear among the currently serving, as there is no constituency for future entrants.

In the end, troops and families affected by such decisions have little or no say in what Congress and the Administration decide about their future compensation package. Their only recourse is to “vote with their feet” – as they did in the 1970s and 1990s – when they believe erosion of their career compensation package has left it insufficient to offset the sacrifices of continued service.

***The REDUX experience shows grandfathering doesn’t allow the country to escape the consequences of unwise actions. It only delays those consequences and throws them in the laps of successor Administrations and Congresses to solve – at potentially greater cost than their enactment had hoped to save.***

***The bottom line is still the same whether the current force is grandfathered or not: such proposals assert a belief that career troops’ and families’ service and sacrifice isn’t worth what we’re paying them.***

***The Coalition believes strongly that it’s no less egregious to devalue the service of future entrants than that of the currently serving.***

### **Conclusion**

***The most powerful argument for the current uniformed services retirement system is that it has worked – and worked extraordinarily well at sustaining career retention through the extraordinary variety of conditions the nation and our military have encountered over the last 60 years.***

Through multiple wars and budget-driven force build-ups and drawdowns, it has proven highly effective in accomplishing its intended purpose.

The hard reality of the world is that the extraordinarily arduous service conditions it was intended to offset have not changed. If anything, service conditions have been worse in recent years than at any time since the current system was created.

***We’ve tried the “cut it to save money” and “grandfather the current force” route with REDUX, and proved that didn’t work.***

***So the bottom line remains. Military service is unique and cannot be compared to civilian retirement programs. It's essential to maintain a strong career force to be able to defend the country's national security interests. Anything that works against that is a bad idea.***

The recommended military retirement system changes that have surfaced appear purely budget-driven and fail to take into consideration what will happen to retention and impact the readiness of our Nation's military. Had these types of "reform" been in place for the past decade, they would have destroyed the career force.

Dramatically reducing financial commitments to career servicemembers and families without any reduction in the enormous sacrifices demanded of them would destroy all sense of reciprocal commitment between member and service.

The Coalition understands that all areas of the budget must be able to stand up to scrutiny in this difficult fiscal environment. All we ask is a fair review that takes into account both the intent of these crucial programs and the hard experiences with dramatic changes of the past.

***For those who argue that military people must accept a fair burden of national financial sacrifice, the Coalition answers that the Nation owes career military people a fair accounting of the sacrifices already imposed on them, including not only those imposed while on active duty, but also those imposed in retirement.***

***In that regard, let us not ignore the average 8-10% loss of lifetime retired pay incurred by servicemembers who retired under depressed pay tables of the last three decades because of pay raise caps experienced almost every year under the budget cutbacks imposed during the 1980s and 1990s.***

Thank you for the opportunity to present the Coalition's views on this important topic.

Attachment: SecDef Letter dated 15 Nov 1985



THE SECRETARY OF DEFENSE

WASHINGTON, THE DISTRICT OF COLUMBIA

15 NOV 1985

Honorable Thomas P. O'Neill, Jr.  
Speaker of the House of  
Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

The enclosed report complies with the requirements of section 667 of the Defense Authorization Act for fiscal year 1986.

Included in the report are drafts of the two pieces of legislation that would change the military non-disability retirement system. Each would result in a reduction in military retirement accrual funding of \$2.9 billion in fiscal year 1986 as mandated by the Congress. This is a 16 percent reduction in military retired pay from the current system and is in addition to the 13 percent reduction that was imposed by the Congress in the high-three-year averaging adjustment in 1980.

Although the Department of Defense has prepared the draft legislation as required by the Congress, I want to make it absolutely clear that such action is not to be construed as support for either of the options for change. To the contrary, the Department of Defense is steadfastly opposed to the significant degradation in future combat readiness that would result from the changes required to achieve the mandated reduction. I am particularly concerned about the potential loss of mid-level officers, NCOs and Petty Officers who provide the first-line leadership and technical know-how so vital to the defense mission. Unless offsetting compensation is provided, our models conservatively indicate that our future manning levels in the 10 to 30 year portion of the force would drop below the dismal levels of the late 1970s when aviator shortages and shortfalls in Army NCO and Navy Petty Officer leadership seriously degraded our national security posture.

While the changes we have been required to submit technically affect only future entrants, we expect an insidious and immediate effect on the morale of the current force. No matter how the reduction is packaged, it communicates the same message, i.e., the perception that there is an erosion in support from the American people for the Service men and women whom we call upon to ensure our safety. It says in absolute terms that the unique, dangerous and vital sacrifices they routinely make are not worth the taxpayers' dollars they receive, which is not overly generous. I do not believe the majority of the American people support this view and ask that you consider this in your deliberations on this very crucial issue to our national security.

Sincerely,

Enclosure

**Colonel Steve Strobbridge (USAF-Ret)**

Director, Government Relations, Military Officers Association of America (MOAA); and Co-Chairman, The Military Coalition

Steve Strobbridge, a native of Vermont, is a 1969 graduate from Syracuse University. Commissioned through ROTC, he was called to active duty in October 1969.

After several assignments as a personnel officer and commander in Texas, Thailand, and North Carolina, he was assigned to the Pentagon from 1977 to 1981 as a compensation and legislation analyst at Headquarters USAF. While in this position, he researched and developed legislation on military pay, health care, retirement and survivor benefits issues.

In 1981, he attended the Armed Forces Staff College in Norfolk, VA, en route to a January 1982 transfer to Ramstein AB, Germany. Following assignments as Chief, Officer Assignments and Assistant for Senior Officer Management at HQ, U.S. Air Forces in Europe, he was selected to attend the National War College at Fort McNair, DC in 1985.

Transferred to the Office of the Secretary of Defense upon graduation in June 1986, he served as Deputy Director and then as Director, Officer and Enlisted Personnel Management. In this position, he was responsible for establishing DoD policy on military personnel promotions, utilization, retention, separation and retirement.

In June 1989, he returned to Headquarters USAF as Chief of the Entitlements Division, assuming responsibility for Air Force policy on all matters involving pay and entitlements, including the military retirement system and survivor benefits, and all legislative matters affecting active and retired military members and families.

He retired from that position on January 1, 1994 to become MOAA's Deputy Director for Government Relations.

In March 2001, he was appointed as MOAA's Director of Government Relations and also was elected Co-Chairman of The Military Coalition, an influential consortium of 33 military and veterans associations.

**John R. Davis**

Director of Legislative Programs  
Fleet Reserve Association

John Davis served in the United States Marine Corps Reserve in an artillery unit (155 self-propelled howitzers) and as a Second Lieutenant in the Illinois Army National Guard in the 1980s. He joined the FRA team as Director, Legislative Programs in February 2006, and recently stepped down as President of FRA Branch 181 (Arlington, Virginia) after serving two terms. He is co-chairman of The Military Coalition's (TMC) Retired Affairs Policy Committee.

John worked for almost 13 years with the National Federation of Independent Business, including 9 years as Director of the Illinois chapter and 3 ½ years in the federal lobbying office in Washington DC. John has lobbied on a variety of issues including healthcare, tort reform, education, insurance, taxation, and labor law.

In 2005 John received a Masters of Public Policy (MPP) degree from Regent University, Alexandria VA. He has a BS degree from Illinois State University in Political Science and History. John is a proud father of two children: Anne age 29 and Michael age 25 who returned from a 7 month deployment to Afghanistan (June 2010) with his Marine Corps Reserve unit.